



# **Enhanced Small and Medium Sized Enterprise Development Program**

## **Quarterly Performance Report**

**April 1 to June 31, 2006**

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**Winrock International  
Counterpart International  
Center for Investment and Support (Prognoz)  
Sakhalin Association of Business People  
Counterpart Enterprise Fund  
Enterprise Support Center Makon  
The Far Eastern Center for Economic Development  
The State Organization for Additional Education Business School**

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## 1. Background

Winrock International, in partnership with Counterpart International, Center for Investment and Support (Prognoz), Sakhalin Association of Business People and Counterpart Enterprise Fund, is working to increase the number of successful small businesses and improve the environment for small businesses to emerge in the Russian Far East. Funded by the United States Agency for International Development, the Enhanced Small and Medium Sized Business Development Program (ESD) has four primary objectives:

- 1) Reduce the burden of regulations on SMEs by increasing SME association advocacy;
- 2) Increase the availability of credit for SMEs and entrepreneurs;
- 3) Provide and increase the availability of advanced business and sector-specific training skills; and
- 4) Build capacity of sector-specific associations by working through them to provide sector-specific consultancies.

In addition, the ESD Program is demand driven, ensures women and remote people benefit, and works to ensure collaboration between business support institutions and other businesses development projects with open and free information.

The project began August 4, 2003, and will continue until August 3, 2006. This report covers activities and results for the period from April 1 to June 30, 2006.

### Project Administration

The Final Partners Meeting was held in Yuzhno-Sakhalinsk April 10-12, 2006. All ESD local partner organizations presented their program results, spoke about their institutional development and presented business or strategic plans for their continued operations after the ESD program closes. The partners demonstrated their institutional growth, financial stability and potential for further development.

As a part of the ESD close out plan, the local ESD staff has received notifications about the project close date and their upcoming separation on June 2, 2006. Subagreements with local partner organizations Makon, Prognoz, SABP, Business School and FECED ended on April 30, 2006, and have been closed during the months of May and June. Subagreement with the Counterpart Enterprise Fund was extended at no cost until June 30, 2006 and will be closed in July.

## 2. Progress Indicators

### 2.1. Improving Regulatory Environment

In its final months, the ESD program continued to strengthen existing business associations (BAs) as well as to support emerging new business associations and unifications by building their capacity to advocate for their members' interests and rights, to overcome regulatory constraints thus decreasing the burden of reforms that hinder business development.

In the past three months (April – June), Counterpart International and ESD local partners focused on summarizing the results of their activities and evaluating the impact made on the business environment improvements in the targeted regions.

### ***SABP and Prognoz Expand Outreach Through Joint Conferences in April***

To present the results of their work up to date to the local government and general public, SABP and Prognoz business associations organized and held two final regional conferences *ESD Program Impact on Business Associations and Regulatory Reform Development* in Sakhalin and in Amur regions respectively in April.

The conference in **Sakhalin** took place on 13<sup>th</sup> April and was attended by 56 representatives of local BAs, local government, Duma and NGOs. The goal of the conference was to discuss and summarize their achievements on regulatory reform activities of ESD program. One of their findings was that, due to the ESD program, the time spent by entrepreneurs to register their businesses significantly decreased. In addition, the number of inspections conducted by controlling units also decreased, with most in compliance with the law.

During the meetings, the BAs shared their experience on how to overcome regulatory constraints. Most were successful when they brought together representatives from local businesses and inspection agencies. Businesses were able to present their problems and allowed the inspection agencies to clarify the procedures to follow during inspections. As a result of these meetings, BAs published articles providing information on existing administrative barriers, entrepreneurial rights and responsibilities, and provided legal advice services.

The second conference was held in **Amur region** on 25<sup>th</sup> April and included 45 representatives from local businesses and NGOs, government officials and members Sakhalin BAs as guest speakers.

During the conference, ESD grantees spoke about their work under ESD program and presented the results of implemented advocacy projects. For example, Entrepreneurs' Union of Ulegorsk region in Sakhalin successfully improved the local labor regulation through advocacy (see text box).

At both conferences, representatives of federal and local governments praised ESD program for its positive impact on SME development, regional economy growth and business environment

#### ***Entrepreneurs' Union of Ulegorsk Successfully Advocate for improved labor regulation***

According to the labor regulations in Russia, SMEs need to submit a copy of each employee labor contract to the local government for the local government to ensure that the labor contracts comply with the current labor law. However, the Ulegorsk District local government, delayed the registration period for extended time. This forced SMEs to violate the Labor Code by employing people who were not registered and were fined consequently by the local government for not complying with the law.

The Entrepreneurs' Union of Ulegorsk region in Sakhalin formed an ad hoc working group including SMEs and municipal authority representatives. Group members, with the help of a legal specialist, developed a draft provision on registering labor contracts for submission to the authorities. The newly developed document -- *Procedure of Labor Agreements Registration* -- corresponded to Russian Labor Code standards and was approved by the Ulegorsk Regional Mayor.

As a result of the advocacy activities, a new regulation was passed that allows more than 800 entrepreneurs in the region to easily register labor contracts without incurring costly fees.

improvement. During roundtables and brainstorming sessions during the conferences, participants developed agreements for mutual cooperation on SME legislation improvement. Some of the decisions agreed upon included: i) roundtables with active participation of BAs and government officials should remain as a permanently functioning mechanism for solving regulatory and legislation problems; ii) local government and business representatives should come together on regular basis to develop guidelines for future cooperation; iii) the current BA Leaders' Club should remain a place for negotiations between business representatives and government officials; iv) partnership with BAs and other NGOs to in important in developing and implementing social and economic projects favorable for RFE regions.

### ***Overcoming Administration Barriers through Advocacy Grants***

At the final stage of ESD program, two last grant projects were finalized and program and financial reports were submitted to and approved by ESD Program office.

The following grants were successfully completed during this quarter:

- **Public Organization Pulse, (Amur region)**, applied for an ESD grant to decrease the number of inspections conducted by tax inspectors/authority by educating SME representatives about their legal rights. As part of the project, Pulse established an educational and consulting center to provide legal advice to SMEs on how to advocate for their rights. The legal awareness of SME representatives on issues related to the protection of their rights and interests was enhanced (it is proved by the surveys conducted at the beginning and at the end of the project and showed that the tax inspectors followed the procedures set by the law. Before the grant implementation only 26% of questioned entrepreneurs were acquainted with the inspection procedures, knew what documents were needed to show etc. At the end of the grant 64% of entrepreneurs raised their awareness.
- **NGO Harmony (Sakhalin)** used a grant to i) improve local legislation for the companies providing housing and communal services within the territories of the subdistricts. This creates favorable conditions for economic activity and ii) enhance legal literacy and awareness of SME entrepreneurs in the legislative provisions on the issues related to housing and communal services.

Sakhalin Oblast Duma and Yuzhno-Sakhalinsk City Council are currently reviewing the proposal developed within the framework of the grant project. It is expected that after its approval, the legislative basis for developing private enterprises in the Housing and Communal Services sector will be improved thus allowing private capital investments and creating business opportunities for new private enterprises in this sector

### ***Post Grant Monitoring***

In February, Aniva Union of Business People (Sakhalin) submitted proposals request to the Aniva district Duma to provide information on how to develop proposals for the Entrepreneurial Support Program (a Program that is implemented by the local administration to provide support to small business and start-ups). **In April**, Aniva District Regional Council reviewed and accepted these proposals and made a decision to provide funding for the regional business incubator as part of the Program.

*Exchange of Experience between Business Associations*

In June, representatives from five ESD program partner BAs participated in 3-day seminar, *Practical Skills in Social and Public Advocacy*, in Moscow. The seminar was organized by the IREX's DIALOG Program (USAID funded). The major topics discussed during the seminar included: i) how NGOs work with government and business; ii) the role of NGOs in relation to government; iii) grassroots advocacy tools; iv) developing better media tools and Public Service Advertising (PSA); v) how can NGOs monitor compliance; and vi) legal advocacy.

ESD partner associations were invited to present their experience in advocacy and grant implementation at a roundtable as part of the seminar.

**2.2 Improving Access to Credit**

Under the access to credit component, Counterpart facilitates development and introduction of new skills for financial institutions. It also offers strategic direction and mentoring to the Counterpart Enterprise Fund (CEF), which provides logistic support to workshops for SMEs, banks, and non-bank financial institutions. These training activities provide financial institutions with the tools and information they need to lend to SMEs profitably and provide SMEs with information on how to access financing.

*Loans*

During the last quarter, SMEs received **875 loans worth \$5,286,119** from participating banks and non-bank financial institutions. Counterpart also provided access to **14 lease agreements worth a total of \$700,000** as a direct result of the training sessions provided to lending institutions.

*Trainings & Seminars*

In the period April-June 2006, the following trainings and seminars for banks, micro financial organizations and entrepreneurs were organized and conducted , including the three seminars postponed from last quarter:

- *Liquidity Management in Microfinance Institutions*  
April, Vladivostok, conducted by Russian Microfinance Center (RMC) (16 participants)
- *Implementation of the Microcredit Programs in Banks TOT*  
May, Khabarovsk, conducted by RMC (4 participants) and  
June, Khabarovsk, conducted by local trainers (CEF), who were trained at ESD program seminar in May 2006 (10 participants).

The training was developed by RMC experts at the request of and with assistance by ESD Program staff. The goal of the training was to help participants increase their knowledge and skills in training and to prepare local microfinance practitioners to conduct microfinance trainings with RMC supervision and to form a trainers pool in the RFE.

During the TOT in May, four CEF employees became certified to teach this course in the future under RMC's trainer supervision. Three of them conducted the training held in June.

- *Training for loan managers of credit cooperatives*  
May, Yakutsk, conducted by 3 local trainers, who were trained at ESD program seminar in 2005 and one RMC supervisor (19 participants).
- *How to improve service quality and to be client-oriented*  
May, Khabarovsk, conducted by 1A System Consulting company for CEF and Dalcombank staff (14 participants)
- *Leasing as a form of SME financing and Cash flow as a form of planning*  
May, Khabarovsk. The seminar was conducted by Mrs. Elena Vasilieva (CEF) and Mrs. Anna Palikova (Financial Director of Vostokleasing Company) (16 entrepreneurs)  
June 6-7, Khabarovsk. Seminar was conducted by Mrs. Elena Vasilieva (CEF) and Mrs. Anna Palikova (Financial Director of Vostokleasing Company) for Transport Association
- *Delinquency Management*  
April, Primorie, (16 loan specialists from Primorye credit cooperatives)

Due to these activities, the Russian Far East, once lacking qualified trainers in the microfinance area now has certified and trained trainers who are able to deliver training in microfinance to bank and non-bank financial institutions, credit cooperatives, etc.

### ***Rating Evaluation for the Counterpart Enterprise Fund***

In the previous quarter, Microfinanza, a microfinance rating company from Italy, evaluated and rated Counterpart Enterprise Fund (CEF) during the quarter. CEF received BB rate<sup>1</sup> and hopes to be able to use its rating to obtain funding at lower interest rates from foreign banks and investment funds. CEF is currently negotiating with Deutsche Bank regarding long-term investment. In addition, a team of leasing experts prepared a business plan for microleasing activities, which was reviewed by CEF management as a future opportunity. CEF has not, as of yet, had experience in leasing but they are considering the possibility of entering this market in the future and now have a business plan to guide them.

### ***Study Tour for Credit Cooperatives***

In June, ESD program organized and conducted a 7-day study tour for representatives of RFE associations (credit cooperatives) to the Volgograd Region. The purpose was to introduce the most active participants of seminars for credit cooperatives to successful cooperatives in Volgograd. According to the Russian League of Credit Cooperatives, this region has well-established and sustainable cooperatives, coordinated by the Volga Region Association of Credit Cooperatives (PANO), have been successfully operating there for more than ten years.

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<sup>1</sup> BB Rate- limited & vulnerable capacity to meet its financial obligations; adequate operations; stable even though it could be affected by internal or external events



Participants on the trip included representatives from seven credit cooperatives, two associations and one Fund for credit cooperatives development from the Russian Far East

As part of the tour, a one-week training seminar was conducted to share the legal aspects of working as cooperatives, issues related to working with clients, eliminating delinquencies, etc. In addition, the participants visited four local credit cooperatives to exchange and discussions of the existing and to-be-designed templates of various documentation required, such as loan agreements, letters of guarantee, other legal documents for directors, managers, chief accountants, loan officers and lawyers of credit cooperatives.

As a result of this study tour participants are expected to be able to develop unified performance standards for credit cooperatives; improve the loan agreements format; develop new loan products; and, establish a strategic plan for credit cooperatives. All RFE credit cooperative participants seminar appreciated the opportunity to directly communicate and exchange experience with the credit cooperatives from other Russian regions.

### 2.3 Advanced Business and Sector-Specific Training

This quarter Winrock continued to work with its **five** major training partners and other regional training centers to expand availability of advanced and sector-specific training in Russia Far East. **15** training courses for **221** entrepreneurs were offered in all targeted regions in January - March 2006.

#### 2.3.1 Advanced Business Skills Trainings Conducted

**Table 2 – Advanced and Sector Specific Trainings by Region and Number of Participants**

Region	Trainings			Participants		
	Adv.Bus	SSpecific	Total	Adv.Bus	SSpecific	Total
Buryatia	2	0	2	22	0	22
Khabarovsk Krai	4	3	7	31	54	85
Primorye	2	1	3	32	20	52
Sakha (Yakutia)	1	2	3	18	44	62
<b>TOTAL</b>	<b>9</b>	<b>6</b>	<b>15</b>	<b>103</b>	<b>118</b>	<b>221</b>

#### *Training modules*

During the total program period, **twenty** new training modules have been developed and placed on the ESD web site. Each module contains theoretical and practical material, case studies, samples of hand-outs for participants and recommendations to trainers on how to use the module. **Five** of these modules have been used by Partners' organizations for conducting trainings in – April - June 2006.

#### *Training of Trainers*

ESD is committed to provide as much expertise to local trainers as possible. Last quarter ESD supported its partners to participate at three training sessions in Moscow, to take an advantage of the most qualified western trainers and their experience.

June 2006, ESD financed three trainers from Yakutsk, Blagoveschensk and Ulan-Ude to take the advanced 12-days educational course for business trainers. The chance to raise their skills was given to managers and trainers from the ESD partner organizations where the training component was the most developed. The TOT was held by a famous Russian trainer and business consultant Leonid Kroll and his team from the Class Center Company in Moscow. The qualitative and quantitative information received in the training brought the Far East trainers on a new professional level.

### ***Use of local trainers***

ESD partners have significantly increased the use of local trainers, giving them the opportunity to get known in the region and promote their services. Out of **37** ESD trainings conducted last quarter, **33** have been conducted by trainers from the RFE region.

### ***Distant Learning***

ESD partners have been distributing distance learning courses on CDs, developed by the program. Two training courses have been published entitled *Merchandising*, and *Effective Sales Techniques* by Roman Simutkin. **283** entrepreneurs have been trained through this course in – April-June 2006.

### ***Training Markets Development***

The ESD program partners' representatives from Khabarovsk, Blagoveschensk, Ulan-Ude and Yakutsk participated at the *Intertraining's* Annual Conference on June 10<sup>th</sup> in Moscow. *Intertraining* is an all-Russia association of trainers and consultants. One of the roundtables at the conference was devoted specifically to development of trainings and consultancies for SMEs in the Russia Far East. As a result of the conference, the following decisions have been made: 1) to create a Union of training and consulting centers or establish the *Intertraining* Far East representative office; 2) to achieve a ratio of visiting trainers to local trainers as 20% to 80% and 3) to create a magazine "Trainings in the Far East". These decisions will contribute to the ESD partners' professional and institutional development and to the RFE training market expansion.

### **2.3.2 Sector-Specific Trainings Conducted**

ESD Partners continued to support key RFE industries, and in April-June 2006, the Program provided **six** sector-specific training sessions to **118** business people.

Some examples of ESD sector trainings include:

### ***Ecotourism in the Extreme North***

April 3-4, 2006 the Khabarovsk trainer Tatiana Ustinova held a seminar on ecotourism in Ytyk-Kuel village in Yakutia. The participants received information on efficient management and marketing at all stages of the ecotourist product. The most positive result of the training is that the participants understood that development of the inbound tourism is especially important for the support and preservation of the local recreational resource. The next two days, April 5-6,

2006, were devoted to the Tour Product Pricing seminar. That was the second block of the Pricing seminar held in Yakutsk in 2005. The total number of the participants in both trainings reached 44.

### **New Association Established in Khabarovsk Krai**

Thanks to the long-term ESD support to the tourism sector, a new Association of Khabarovsk Hoteliers was established on May 19, 2006. This happened immediately after the Congress of Restaurateurs and Hoteliers in Vladivostok, which was visited by Khabarovsk hotel directors and managers (financed by ESD). The new Association so far includes ten corporate members – the Khabarovsk hotels. Three more members are ready to join the Association. They are educational institutions that train staff for hospitality industry.

In May-June 2006, the ESD Program co-financed three trainings for hotel managers: *“Quality Service in Hotels”* (trainer Galina Ovsyankina), *“Modern Service Standards in Hospitality Business”* and *“Effective Communication with Guests. Phone Etiquette”* (trainer Elena Lyamkina). The trainings have had a great success and have been recognized as very urgent and necessary.

The Association plans to continually train hotel staff with the help of visiting trainers; to assist hospitality industry students with doing internships through all educational period; to advocate hospitality business’ interests with local government.

## **2.4 Sector-Specific Consultancies**

<b>Region</b>	<b># of consultancies</b>	<b># of participants</b>	<b># of enterprises</b>
Amur Oblast	1	3	3
Buryatia	1	4	3
Khabarovsk Krai	2	9	5
Primorye	1	1	1
Sakha (Yakutia)	1	1	1
<b>TOTAL</b>	<b>6</b>	<b>18</b>	<b>13</b>

One of the ESD Program’s goals has been to assist 35 SMEs to sign contracts as a result of participation in trade shows, total value of these contracts to reach \$1 million. To achieve this goal, ESD supported RFE companies to go to trade shows in Moscow and St. Petersburg.

### ***The Indigenous Peoples Trade Show***

During the program implementation, ESD has been actively supporting the tourism sector in its regions. A number of ESD trainings for this sector had been devoted to souvenirs production, marketing and promotion. To display the results of their improved products, five companies from Buryatia, Yakutia and Khabarovsk territory participated in the Indigenous trade show “Northern Civilization. Region Expo” held April 6-9, 2006 in Moscow. This unique trade show brought together Indigenous craftsmen and souvenir producers from all over Russia. Prior to

attending, the ESD-supported participants attended a number of trainings to learn how to present at exhibitions and trade shows, and how to market crafts products. These trainings were conducted by the ESD Program as an integral part of the project activity in developing ecotourism industry in Siberia and RFE. The trainings and the trade show paid off as demonstrated by the following results:

- All ESD trained companies won special prizes in the nomination “The Best Exhibit of the Trade Show.” The “Uran Sakha” company from Yakutia won gold medal, the non-commercial partnership “Crafts of Dersu’s Land” from Khabarovsk territory received silver medal, the other three participants received Special Diplomas of the Indigenous Trade Show for their unique crafts.
- Two participants (“Uran Sakha” from Yakutia and “Crafts of Dersu’s Land” from Khabarovsk territory) were invited to participate in the trade show in Switzerland in 2007. The trade show aims at promoting the Indigenous Circumpolar Art.
- The souvenir factory “Geser” from Buryatia received an offer to participate in the trade show in Moscow to exhibit their one-of-a-kind artworks. “Geser” also signed an agreement on a company representative in Moscow to distribute their collectible products.
- Total volume of sales at the trade show exceeded \$ 25,000.

All the participants realized the importance and effectiveness of attending trade show as a marketing instrument in building new partner relations and expanding their markets.

### ***“ProdTech -- 2006” and “World of Restaurants and Bistro” Trade Shows***

Eight Far Eastern companies represented by 9 businessmen participated in exhibitions in Moscow and Saint Petersburg on food processing and restaurants sectors in April 2006. The participants came from Khabarovsk, Vladivostok, and Blagoveshensk, and had the goal to promote the Far-Eastern businesses, to purchase new processing equipment and to supply their products to the Western parts of Russia.

In St. Petersburg, ESD supported “Lesnye Producty Co.” to exhibit its natural food products in at the “ProdTech” exhibition<sup>[EH1]</sup>. As a result, the company has signed several supply agreements; the total price of the agreements is USD 12,000.00. All trade show participants have signed agreements for processing, trade, and restaurant equipment purchase. Also several contracts to promote Far Eastern associations in the Western parts of Russia were signed. The total price of all agreements signed at both trade shows is estimated at USD \$402,150.

## **2.5 Outreach and Communication**

ESD COP, staff and partners have been in constant communication with other international projects, such as Russian American Education Center in Khabarovsk, BISNIS, ISC, New Eurasia Foundation, Russian Microfinance Center, and IREX. We share information, resources, exchange ideas and ensure collaboration with these and other organizations.

ESD COP presented preliminary program results to USAID/Moscow Office of Regional Development in May 2006.

The ESD Program **website** continues to be updated. We publish training schedules, calendars of events, training materials and other resources on the web to ensure information exchange and collaboration between the project's partners. It provides information about the program's activities, findings and results to date.

### **1. Problems/Difficulties Anticipated in the Next Three Months**

N/A